



Genuine Parts Co. (GPC)

Updated February 25th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$121	5 Year CAGR Estimate:	11.9%	Market Cap:	\$17 B
Fair Value Price:	\$129	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	03/03/22 ¹
% Fair Value:	94%	5 Year Valuation Multiple Estimate:	1.3%	Dividend Payment Date:	04/01/22
Dividend Yield:	3.0%	5 Year Price Target	\$190	Years Of Dividend Growth:	66
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	9.8%

Overview & Current Events

Genuine Parts Company was founded in 1928 and since that time, it has grown into a sprawling conglomerate that sells automotive and industrial parts, electrical materials, and general business products. Its global span reaches throughout North America, Australia, New Zealand, and Europe and is comprised of more than 3,000 locations. It has about 52,000 employees and trades with a market capitalization of \$17 billion, with about \$21 billion in annual revenue. Genuine Parts is also a Dividend King, having raised its dividend for an incredible 66 consecutive years.

Genuine Parts reported fourth quarter and full-year earnings on February 17th, 2022, with results coming in well ahead of expectations on both revenue and profits. Total revenue was up 13% year-over-year to \$4.8 billion, which was \$140 million ahead of expectations. On the earnings front, Genuine Parts produced \$1.79 per share, which was 20 cents ahead of consensus. Sales gains in the fourth quarter were attributable to an 11.3% increase in comparable sales, as well as a 1.9% benefit from acquisitions. These were partially offset by a small impact of forex translation. Earnings in Q4 came to \$256 million, or \$1.79 per share. These were up sharply from \$221 million, or \$1.52 per share in the comparable period a year ago on an adjusted basis. For the year, sales were \$18.9 billion, a 14% increase from 2020. Net income on an adjusted basis was \$997 million, or \$6.97 per share, up 31% from \$5.27 in 2020.

We forecast earnings-per-share at \$7.60 for this year on the company's outstanding 2021 performance, as well as strong guidance that was initiated for this year from the management team.

The company also boosted its dividend by 9.8% to a new annualized payout of \$3.58 per share, the company's 66th consecutive year of dividend increases.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$4.14	\$4.19	\$4.61	\$4.63	\$4.59	\$4.71	\$5.68	\$5.69	\$5.27	\$6.91	\$7.60	\$11.17
DPS	\$1.98	\$2.11	\$2.30	\$2.46	\$2.63	\$2.70	\$2.88	\$3.05	\$3.16	\$3.28	\$3.58	\$5.02
Shares²	155	154	153	150	148	147	147	146	144	142	138	124

Earnings-per-share growth has seen stops and starts but over the long-term, Genuine Parts delivers. The company's businesses are all what could be considered staples as it serves businesses and consumers in areas where there is likely to be demand for the long run. The company's acquisitions have led the way in terms of growth and will continue to do so moving forward. We are forecasting 8% annualized earnings-per-share growth for the next five years in a continuation of this trend, in addition to positive organic sales in the Automotive segment. The company's nearly constant acquisitions should help keep the top line moving, and we note margins have improved of late. In addition, the company's Industrial segment continues to struggle with COVID-related issues, but those seem to be abating somewhat, and results were outstanding in Q4, and indeed for the full-year of 2021. We note improving sales and margins should power earnings higher for 2022.

¹ Estimated date

² Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Genuine Parts' pipeline of new acquisitions should keep the trend of higher revenue in place for the foreseeable future, with sales growth being the primary driver of earnings-per-share growth moving forward, in concert with a small amount of share repurchases. Gross margins continued to gradually improve in 2021 and operating margins were strong as a result.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.2	18.6	19.3	19.5	20.8	19.2	17.0	17.8	17.1	17.7	15.9	17.0
Avg. Yld.	3.2%	2.7%	2.6%	2.7%	2.8%	3.0%	3.0%	3.0%	3.5%	2.7%	3.0%	2.6%

Genuine Parts' price-to-earnings ratio rose steadily in the period from 2009 to 2017, moving from 13.8 to 19.2 in that time frame. The stock now trades for 15.9 times our earnings estimate for this year as the stock has come down while earnings estimates have risen. With the price-to-earnings ratio now below our long-term fair value estimate at 17, we see an annual tailwind to total returns from the valuation.

Genuine Parts is famous for its dividend, as its 60+ consecutive years of increases makes it a Dividend King. The current yield of 3.0% is quite good by historical norms, and we expect the yield to remain near or under 3% for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	46%	50%	49%	52%	56%	57%	51%	54%	60%	47%	47%	45%

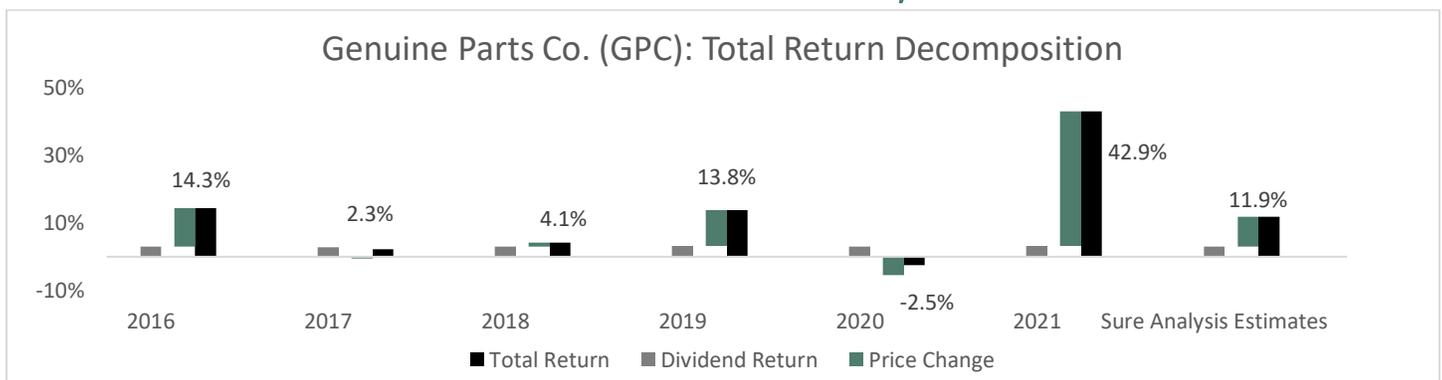
Genuine Parts' payout ratio has been quite steady between 50% and 60% of earnings for many years. We see the dividend rising slightly slower than earnings, keeping the payout ratio at around half of earnings in the years to come, consistent with the past decade.

Genuine Parts' competitive advantages include its wide array of industries and customers served, geographic reach and the fact that it sells what amount to industrial staples. Genuine Parts is still prone to earnings declines during recessions but performs relatively well; this is a defensive stock for a retailer/wholesaler.

Final Thoughts & Recommendation

Overall, Genuine Parts Company looks undervalued based upon both its current valuation and dividend yield. Given this, we are expecting total annual returns of 11.9% for the next five years. Returns could accrue from the current 3% yield and 8% earnings growth, helped by a tailwind from the valuation. Given this total return outlook, we're upgrading the stock from hold to buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	13,014	14,078	15,342	15,280	15,340	16,309	16,832	17,522	16,537	18,871
Gross Profit	3,778	4,220	4,594	4,556	4,600	4,906	5,520	5,860	5,655	6,634
Gross Margin	29.0%	30.0%	29.9%	29.8%	30.0%	30.1%	32.8%	33.4%	34.2%	35.2%
SG&A Exp.	2,657	3,028	3,314	3,277	3,392	3,726	4,241	4,578	4,387	5,163
D&A Exp.	98	134	148	142	147	168	228	257	273	291
Operating Profit	1,015	1,049	1,124	1,124	1,049	999	1,035	1,011	972	1,163
Op. Margin	7.8%	7.5%	7.3%	7.4%	6.8%	6.1%	6.1%	5.8%	5.9%	6.2%
Net Profit	648	685	711	706	687	617	810	621	(29)	899
Net Margin	5.0%	4.9%	4.6%	4.6%	4.5%	3.8%	4.8%	3.5%	-0.2%	4.8%
Free Cash Flow	804	933	682	1,050	785	658	919	614	1,866	992
Income Tax	371	359	406	418	387	393	245	213	216	302

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	6,807	7,680	8,246	8,145	8,859	12,412	12,683	14,646	13,440	14,352
Cash & Equivalents	403	197	138	212	243	315	334	277	990	715
Accounts Receivable	1,490	1,665	1,872	1,822	1,939	2,422	2,494	2,440	1,557	1,798
Inventories	2,603	2,946	3,044	3,000	3,210	3,771	3,609	3,444	3,506	3,890
Goodwill & Int. Ass.	498	1,289	1,387	1,362	1,575	3,554	3,540	3,786	3,416	3,322
Total Liabilities	3,799	4,322	4,934	4,986	5,652	8,948	9,211	10,950	10,222	10,849
Accounts Payable	1,682	2,270	2,555	2,822	3,081	3,635	3,996	3,948	4,128	4,805
Long-Term Debt	500	765	765	625	875	3,245	3,143	3,426	2,677	2,409
Shareholder's Equity	2,998	3,349	3,301	3,147	3,194	3,412	3,450	3,675	3,205	3,491
D/E Ratio	0.17	0.23	0.23	0.20	0.27	0.95	0.91	0.93	0.84	0.69

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.0%	9.5%	8.9%	8.6%	8.1%	5.8%	6.5%	4.5%	-0.2%	6.5%
Return on Equity	22.6%	21.6%	21.4%	21.9%	21.7%	18.7%	23.6%	17.4%	-0.8%	26.8%
ROIC	19.2%	18.0%	17.3%	18.0%	17.5%	11.4%	12.2%	9.0%	-0.4%	15.2%
Shares Out.	155	154	153	150	148	147	147	146	144	142
Revenue/Share	83.20	90.41	99.38	100.20	102.40	110.42	114.31	119.67	113.96	130.84
FCF/Share	5.14	5.99	4.42	6.88	5.24	4.46	6.24	4.19	12.86	6.88

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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